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INFLATION

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In economics, inflation is a rise in the general level of goods' and services' prices in the economy over a period of time. When the general price level rises fewer goods and services are bought at each unit of currency. Consequently, inflation also reflects corruption in the purchasing power of money – a loss of real value in the internal medium of exchange and unit of account in the economy. A chief measure of price inflation is the inflation rate, annualized with percentage change in a general price index over the time.

In the history of world economy there are two cases of the sharp rise in prices which are connected with falling cost of metals which money was produced from.

1. After discovering America in the European countries there were a lot of gold and especially silver arrived from Mexico and Peru. From the beginning of the XVI the century silver manufacture had increased more than 60 times. It led to an increase of the commodity prices at the end of the century in 2,5-4 times.
2. In the late 1840 there appeared working out the Californian gold mines. Soon after that mass gold mining in Australia began. World gold mining had thus increased more than in 6 times, the prices having increased by 25-50 %. Inflation of this kind was observed worldwide.

In economics there are following reasons of inflation:

-Growth of the State expenditure, for that the state launches monetary issue, increasing monetary weight over requirements of the commodity circulation. It is the most brightly expressed during the military and crisis periods;

-Overplanned expansion of monetary weight at the expense of mass crediting;

-Monopoly of large firms defining the price and own production costs, especially in raw branches of industry;

-Monopoly of trade unions which limits market mechanism possibilities to define level of a salary;

-Reduction of real volume of national manufacture which leads to a rise in prices it means smaller quantity of the goods and services corresponds former one;

During especially strong period of inflation, for example, in Russia during the Civil War, or in Germany in 1920s monetary circulation was replaced with barter.

In modern economy, where the role of money is executed by obligations not having own costs, insignificant inflation is considered as normal and is usually kept at the level of several percent a year. The rate of inflation usually increases in the end of the year because both a consumption level of the households goods, and level of corporations expenses grow.

The uneven rise in prices on commodity groups generates inequality of profits, stimulates outflow of resources from one sector of economy to another (in Russia from the industry and agriculture to trade and financial sectors).

There are some kinds of inflation:

-Demand inflation is generated by surplus of cumulative demand in comparison with real volume of output. (Deficiency of the goods)

-Inflation of the offer (costs) is the rise in prices which is caused by increase in production costs in the condition of the underused industrial resources. Increase of costs reduces volume of production offered by manufacturers at the existing price level.

-The balanced inflation is when the prices on the various goods remain invariable from each other.

-Unbalanced inflation is when the prices on the various goods change under the relation to each other in various proportions.

-Predicted inflation is an inflation which is considered as expectations and behavior of economic subjects.

-Not predicted inflation becomes unexpectable for the population because actual rate of price level exceeds the expected one.

-The adapted expectations of consumers are changes in consumer psychology. Often it is a result of distributing of the information about the future potential inflation. The raised demand for the goods allows businessmen to raise the prices for the goods.

There are some methods of measurement of inflation:

-The most widespread method of measuring inflation is the Consumer Price Index (CPI) which is calculated in the relation to the base period.

-The Producer Price Index, PPI reflects the cost price of manufacture without the additional price of distribution and taxes from sales. The data of PPI are prior those of CPI.

- Cost-of-living Index, COLI considers balance between of increasing both incomes and expenses.

-Assets Price Index includes shares real estate, the price of the extra capital and others. Usually the assets prices grow faster than those of consumer goods and money. Therefore owing to inflation owners of assets become rich.

-Gross National Product Deflator (GDP Deflator) is calculated due to changes in the price for a group of the identical goods.

Today, the most mainstream economists prove a low, steady rate of inflation. If it is low (as opposed to zero or negative) inflation may reduce the severity of economic recessions by enabling the labor market to adjust more quickly in a downturn, and reduce the risk that a liquidity trap prevents monetary policy from stabilizing the economy. The task of keeping the rate of inflation low and stable is usually given to monetary authorities. Generally, these monetary authorities are the central banks that control the volume of money supply through setting interest rates, open market operations, and setting banking reserve requirements.